DEPARTMENT OF EDUCATION

34 CFR Part 685

RIN 1840–AC19

William D. Ford Federal Direct Loan Program

AGENCY: Department of Education.

ACTION: Final regulations.

SUMMARY: The Secretary of Education amends provisions of the regulations governing the income contingent repayment plan under the William D. Ford Federal Direct Loan (Direct Loan) Program regulations. The Secretary is amending these provisions to provide benefits to borrowers and protect the taxpayers' interests.

EFFECTIVE DATE: These regulations take effect July 1, 1996. However, affected parties do not have to comply with the information collection requirements in § 685.209 until the Department of Education publishes in the Federal Register the control number assigned by the Office of Management and Budget (OMB) to these information collection requirements. Publication of the control number notifies the public that OMB has approved these information collection requirements under the Paperwork Reduction Act of 1995.

FOR FURTHER INFORMATION CONTACT: Ms. Rachel Edelstein, Program Specialist, Direct Loan Policy Group, Policy Development Division, U.S. Department of Education, Room 3053, ROB–3, 600 Independence Avenue, SW, Washington, D.C. 20202–5400. Telephone: (202) 708–9406. Individuals who use a telecommunications device for the deaf (TDD) may call the Federal Information Relay Service (FIRS) at 1–800–877–8339 between 8 a.m. and 8 p.m., Eastern time, Monday through Friday.

SUPPLEMENTARY INFORMATION:

Background

On July 1, 1994, the Secretary published final regulations that included provisions for the income contingent repayment plan during Year One of the Direct Loan Program. The Higher Education Act of 1965, as amended (HEA), directed the Secretary, to the extent practicable, to develop proposed rules for the Direct Loan Program through a negotiated rulemaking process for the second and subsequent years of the program (1995–1996 and beyond). Therefore, following negotiated rulemaking, the Secretary published a Notice of Proposed Rulemaking (NPRM) on August 18, 1994, and final regulations on December 1, 1994, both of which included new provisions for the income contingent repayment plan of the Direct Loan Program. On December 22, 1994, the Secretary published regulations that revised the July 1, 1994, regulations to provide that provisions for income contingent repayment would be identical for Year One and Year Two of the Direct Loan Program.

On September 20, 1995, the Secretary published a notice of proposed rulemaking (60 FR 48848), proposing to make improvements to the existing income contingent repayment plan. These changes were proposed for Year Three of the program and beyond. The following section summarizes the major revisions to the proposed rule.

Substantive Revisions to the Proposed Rule

Section 685.209(a)(3)

- The definition of ''discretionary income'' under the proposed income contingent repayment plan has been revised. Under these final regulations, discretionary income is now defined as the borrower's adjusted gross income (AGI) minus the United States Department of Health and Human Services (HHS) poverty level appropriate to the borrower's family size. This is the same definition of discretionary income as in existing regulations.

Appendix A

- The income percentage factor chart has been revised so that there are only two categories of borrowers: single and married/head of household. Therefore, married and head-of-household borrowers with the same family size, income, and debt make the same payments. Under the proposed income contingent repayment plan, head-of-household borrowers actually made higher payments than married borrowers with the same income and debt levels; the Secretary has determined that head-of-household borrowers should not be required to make higher payments than married borrowers with the same debt and income.

Analysis of Comments and Changes

In response to the Secretary's invitation in the NPRM, 19 parties submitted comments on the proposed regulations. An analysis of the comments and the changes follows. Major issues are grouped according to subject, with references to the appropriate sections of the regulations. Technical and other minor changes, and suggested changes the Secretary is not legally authorized to make under the applicable statutory authority, generally are not addressed.

Revising Income Contingent Repayment

Comments: A number of commenters recommended that any revisions to the plan be brought about through negotiated rulemaking. These commenters noted that the existing repayment plan was developed through extensive negotiated rulemaking.

Discussion: Section 457 of The HEA requires the Secretary to conduct negotiated rulemaking for the Direct Loan Program only to the extent practicable. This section does not require negotiated rulemaking for amendments to existing regulations. Further, the Secretary does not believe that it is practicable to conduct negotiated rulemaking for amendments to these regulations. Negotiated rulemaking is a lengthy process that would have prevented implementation of the revised income contingent repayment plan for the 1996–1997 academic year. For these amendments, the Secretary has decided not to use the negotiated rulemaking process to solicit input from the higher education community. In the Secretary's opinion, the revised income contingent repayment plan is an improvement over the existing plan, and borrowers should be able to benefit from these regulatory revisions as soon as possible. Further, a number of commenters supported the Secretary's proposal to revise the existing plan.

Changes: None.

Required Minimum Payment

Comments: In response to the Secretary's request for comments regarding a required minimum payment for all borrowers, one commenter recommended establishing a minimum payment of $15.00 for all borrowers, including those with a calculated repayment amount of $0. Another commenter advocated establishing a minimum payment of $2.00, if the Secretary were to require a minimum payment from all borrowers. A third commenter suggested that borrowers simply send in a coupon on a monthly basis in place of a payment amount.

Most commenters argued against requiring a payment from a borrower whose calculated repayment amount is $0. In addition, many commenters questioned whether collecting $2.00 payments would be cost-effective. One commenter stated that borrowers with a calculated payment of less than $2.00 would not likely have a checking account and that the requirement to make these minimal payments would, therefore, be burdensome. To reduce burden and improve the cost-effectiveness of collection efforts, several commenters suggested that the Secretary bill borrowers with minimal monthly payments on a quarterly or annual basis.

One commenter questioned whether the Secretary would send delinquency notices to borrowers with $2.00 monthly payments who are $4.00 behind in payments (that is, two months behind in payments).

Discussion: The Secretary agrees with those commenters who argued that borrowers with a calculated monthly payment amount of $0 should not be required to make monthly payments. In addition, the Secretary agrees with commenters that collecting $2.00 monthly payments may not be cost-effective. The Secretary has determined that requiring a $5.00 minimum monthly payment of borrowers whose calculated monthly payment amount is greater than $0 but less than or equal to $5.00 would be more cost-effective and would better promote responsible repayment practices than establishing a minimum $2.00 payment amount. In addition, the Secretary believes that this change in policy will not impose a significant burden on borrowers. Therefore, the Secretary has decided to require a $5.00 minimum monthly payment of borrowers whose calculated monthly payment amount is greater than $0 but less than or equal to $5.00.

In response to concerns that monthly billing will be burdensome for borrowers with minimal monthly repayment amounts, the Secretary will consider carefully the option of billing these borrowers on a quarterly or other less frequent basis. The Secretary has not prescribed billing cycles or billing frequency in these regulations and thus has the flexibility to change billing frequency if this action is warranted.

The Secretary considers a borrower to be delinquent after the borrower has missed a monthly payment. Therefore, a borrower with required $5.00 monthly payments who is $10.00 behind in payments is considered to be delinquent, and the Secretary would send a delinquency notice to the borrower.

Changes: None.

Comment Period

Comments: Several commenters were concerned that the comment period was too short, especially considering that the Department published six NPRMs, all with comment periods ending at approximately the same time.

Discussion: In the six NPRMs referred to above, the Secretary proposed numerous improvements and necessary changes to the Student Financial Assistance Program. The ‘‘Master Calendar’’ provisions contained in section 482 of the HEA require that regulations be published in final form by December 1 prior to the start of the award year for which they will become effective. Because of the importance of implementing these changes and improvements for the award year beginning July 1, 1996, the Secretary established a comment period that would allow publication of these final regulations by December 1, 1995, consistent with the ‘‘Master Calendar’’ timeframe. The Secretary always endeavors to provide as long a comment period as possible.

Changes: None.

Section 685.209(a) Repayment Amount Calculation

Comments: Several commenters expressed support for the new repayment amount calculation provisions. Many commenters approved of the Secretary’s simplifying the existing income contingent repayment plan, which requires borrowers to choose between two formulas, so that there is only one formula. However, several commenters expressed objections to the new formula. For example, in response to the Secretary’s statement in the preamble to the NPRM that the revised income contingent repayment plan will discourage over-borrowing, several commenters argued that the Secretary should not attempt to discourage over-borrowing through the income contingent repayment plan. One commenter suggested that the Secretary’s efforts to discourage over-borrowing will result in a repayment plan that will prevent borrowers from entering public service and will discourage borrowers from choosing high-tuition institutions, even if they wish to attend such institutions.

With regard to specific problems commenters identified in the new income contingent repayment plan, numerous commenters noted that the new formula makes no adjustment for family size. To address this problem, several commenters recommended that the Secretary incorporate into the new plan the current income contingent repayment plan’s definition of discretionary income, which takes family size into account. Another commenter suggested offering forbearance to borrowers with larger households. Similarly, several commenters were concerned that the levels of discretionary income the plan established are well below the poverty level for borrowers with dependents. In addition, commenters argued that the level of discretionary income for single borrowers and head-of-household borrowers should not be identical.

Other commenters noted that head-of-household borrowers would make higher payments than married borrowers with the same level of income and debt, due to the income percentage factors applicable to the two categories of borrowers. These commenters questioned whether this outcome of the proposed formula is appropriate. Another commenter who commented on the income percentage factors asked when the Secretary would apply the annually updated income percentage factors—each January 1st or when the Secretary obtains updated income data.

One commenter stated that the proposed revision to the income contingent repayment plan violates section 455(e)(4) of the HEA because the proposed calculation amount is relative to income and debt, and the statute states only that payments should be relative to income.

Finally, one commenter questioned whether the effect of the revised income contingent repayment plan would result in middle-class borrowers supporting lower-income borrowers.

Discussion: The Secretary agrees with the commenters that using only one formula to calculate repayment under the income contingent repayment plan will simplify the income contingent repayment option. While several commenters objected to the Secretary’s attempt to discourage over-borrowing, the Secretary believes that it is fiscally irresponsible to structure an income contingent repayment plan that encourages over-borrowing. As stated in the preamble to the September 20, 1995, NPRM, the Secretary believes that the existing income contingent repayment plan may encourage over-borrowing because borrowers’ payments increase only negligibly as debt increases. To remove this incentive to over-borrow, the Secretary believes it is appropriate to revise the plan so that payments increase significantly with amounts borrowed.

The Secretary disagrees with the commenter who stated that the proposed revision to the income contingent repayment plan is in violation of the HEA because it bases payments on income and debt. The existing plan also bases payments on income and debt. The new plan simply takes the amount borrowed into greater consideration than the existing plan. Contrary to this commenter’s suggestion, section 455(e)(4) of the HEA does not prohibit the Secretary from taking into account a borrower’s debt level when determining repayment schedules. The statute requires that income be included but does not address the factors which the Secretary may, in his discretion, include.

The Secretary agrees with the commenters that payments should be adjusted for family size, that discretionary income levels for single and head-of-household borrowers should not be identical, and that payments for head-of-household borrowers should not be higher than those for married borrowers with the same income and debt levels. In order to revise the regulations accordingly, the Secretary has amended the definition of discretionary income. Under the revised regulations, discretionary income is now defined as AGI minus poverty levels established by HHS; these poverty levels take family size into account.

In response to the commenter's question as to when the Secretary would apply the adjusted income percentage factor, the Secretary will apply new income percentage factors and new HHS Poverty Guidelines at the same time that new interest rates are applied: each July 1st.

Finally, the Secretary assures the commenter who suggested that middle-income borrowers may be supporting lower-income borrowers that there is no cross-subsidization under either the existing or the revised income contingent repayment plan.

Changes: The income percentage chart has been revised to reflect only two categories of borrowers: single and married/head of household. Because the income percentage factors applicable to married and head-of-household borrowers will be identical, married and head-of-household borrowers with the same family size, income, and debt make the same monthly payments.

Section 685.209(a)(3) has been revised so that discretionary income is now defined as AGI minus the amount of the ''HHS Poverty Guidelines for all States (except Alaska and Hawaii) and the District of Columbia'' as published by the United States Department of Health and Human Services on an annual basis. For residents of Alaska and Hawaii, discretionary income is defined as a borrower's AGI minus the amounts in the ''HHS Poverty Guidelines for Alaska'' and the ''HHS Poverty Guidelines for Hawaii'' respectively. These guidelines adjust for family size.

Comments: One commenter stated that the Secretary should make the new income contingent repayment plan formula available on software, so that borrowers can calculate their payments. This commenter suggested extending the comment period until 30 days after this software becomes available. In addition, this commenter suggested that the final regulation should include charts showing typical repayments over 25 years. In these charts, the commenter suggested that the Secretary show both the accrual and capitalization of interest during periods of negative amortization and during periods of positive amortization.

Discussion: The Secretary is considering making available to the public software for income contingent repayment calculations. However, the Secretary cannot extend the comment period until this software is available without seriously delaying the effective date of the regulations. In addition, the Secretary is not including charts showing typical repayments over 25 years. The Secretary will make such charts available in informational repayment materials provided to borrowers.

Changes: None.

Section 685.209(b) Treatment of Married Borrowers

Comments: Several commenters approved of the Secretary's treatment of married borrowers under the new income contingent repayment plan. However, one commenter argued against the Secretary's requiring borrowers who file their income tax separately from their spouse to obtain consent to disclosure of tax return information from their spouse. This commenter stated that the proposed policy would prohibit borrowers whose spouses are unwilling to provide this consent to disclosure from repaying under the income contingent repayment plan. Also, this commenter asked how the Secretary would determine whether the borrower is married.

One commenter suggested an alternative to the wording in the NPRM that provides that married borrowers who are legally separated are not required to obtain their spouse's consent to tax return disclosure. This commenter stated that the regulations should provide that the borrower is not required to obtain this consent to disclosure if the borrower provides proof that he or she is living apart from the spouse and has filed for divorce. According to this commenter, some states do not recognize the status of being legally separated.

One commenter questioned whether there were any provisions for married couples who choose to repay their loans jointly under the income contingent repayment plan and subsequently divorce and wish to separate their payments.

Discussion: The Secretary feels strongly that repayment amounts for married borrowers must be based on the income of the borrower and the borrower's spouse. This policy will ensure that payments from married borrowers are calculated based on an accurate assessment of the borrower's ability to repay. The Direct Loan Program offers borrowers a variety of repayment plans; therefore, a married borrower who is unable to repay under the income contingent repayment plan because the spouse is unwilling to provide consent to disclosure of tax return information would be eligible to repay under any of the other Direct Loan repayment plans. Further, the Secretary intends to update income information concerning borrowers' spouses annually.

To respond to the commenter's concern regarding how the Secretary would determine whether or not the borrower is married, the Secretary obtains a borrower's filing status (married, single, or head of household) from the Internal Revenue Service (IRS) when AGI information is reported. The Secretary acknowledges that some states do not recognize the status of ''legally separated'' and has made a change accordingly. Finally, with regard to the commenter's concern that married borrowers who have been repaying jointly should be able to begin repaying separately should they divorce, the Secretary assures the commenter that borrowers in joint repayment can always begin repaying separately at any time by changing their repayment plan option.

Changes: Section 685.209(b)(1) has been revised so that a married borrower who has filed taxes separately from his or her spouse and is ''separated'', rather than ''legally separated'', is not required to provide his or her spouse's written consent to disclosure of tax return information.

Section 685.209(c)(2) Alternative Documentation of Income

Comments: One commenter advocated allowing all borrowers to submit alternative documentation of income to establish monthly payments under the income contingent repayment plan while the Direct Loan Servicer is waiting for adjusted gross income (AGI) information from the IRS. Another commenter asked the Secretary to clarify whether the Secretary would require alternative documentation of income from borrowers who have been in repayment for a number of years but are in their first year of repayment under a Direct Consolidation Loan. In addition, this commenter noted that a borrower may be in the first two years of repayment on some loans but may have been in repayment for a longer period of time on other loans. Finally, this commenter asked whether the Secretary would collect alternative documentation of income from a borrower and the borrower's spouse, if the borrower is in his or her first or second year of repayment and is married.

Discussion: With regard to the comment that all borrowers be allowed to submit alternative documentation of income while the Servicer is waiting for AGI, the Secretary may use other documentation of income provided by the borrower if AGI is not available or if, in the Secretary's opinion, the borrower's reported AGI does not reasonably reflect current income. Therefore, if a borrower's AGI will not reflect current income, the borrower can submit alternative documentation of income to the Servicer before IRS-reported AGI becomes available.

The Secretary intends to collect alternative documentation of income from borrowers in their first and second years of repayment, when IRS-reported AGI does not reasonably reflect the borrower's current income. The Secretary will likely collect alternative documentation of income from borrowers who are in their first and second years of repayment on any of their loans, even if they have been in repayment for a longer period of time on other loans. These borrowers have recently completed school and, therefore, the prior year's AGI is unlikely to reflect current income.

On the other hand, the Secretary does not intend to collect alternative documentation of income from borrowers who have been in repayment for more than two years but have recently changed into the income contingent repayment plan or from borrowers who have recently consolidated and chosen to repay under this plan. These borrowers have not recently left school and have likely been working. For these borrowers, the prior year's AGI will probably reflect the current year's income.

Finally, the Secretary intends to collect alternative documentation of income from the borrower and the borrower's spouse if the borrower is in his or her first or second year of repayment and AGI does not, in the Secretary's opinion, accurately reflect the borrower's current income. The Secretary will collect this alternative documentation of income from the spouse of these borrowers in order to assess accurately the borrower's ability to repay.

Changes: None.

Section 685.209(c)(5) Limitation on Capitalization of Interest

Comments: One commenter mistakenly believed that the Secretary has removed the existing limit on capitalization.

Discussion: The Secretary has not removed the existing limit on capitalization, which provides that unpaid interest is capitalized only until the outstanding principal amount is ten percent greater than the original principal amount. While the Secretary has revised certain provisions under the income contingent repayment plan, the Secretary has not altered the provision that limits interest capitalization under the income contingent repayment plan.

Changes: None.

Section 685.209(c)(4)(iv) Forgiveness after 25 Years of Repayment

Comments: Several commenters asked whether the Secretary is pursuing a legislative solution to the current tax problem under the income contingent repayment plan (that is, the problem that any amount forgiven at the end of 25 years is treated as income).

Discussion: The Secretary is working with the Department of the Treasury to pursue a legislative solution to the tax liability problem under the income contingent repayment plan. The Department included its proposal to remove the tax liability under the income contingent repayment plan in the Administration's Sallie Mae privatization bill that was submitted to Congress.

Changes: None.

Executive Order 12866

These final regulations have been reviewed in accordance with Executive Order 12866. Under the terms of the order the Secretary has assessed the potential costs and benefits of this regulatory action.

The potential costs associated with the final regulations are those resulting from statutory requirements and those determined by the Secretary as necessary for administering this program effectively and efficiently.

In assessing the potential costs and benefits—both quantitative and qualitative—of these final regulations, the Secretary has determined that the benefits of the regulations justify the costs.

The Secretary has also determined that this regulatory action does not unduly interfere with State, local, and tribal governments in the exercise of their governmental functions.

Summary of Potential Costs and Benefits

The potential costs and benefits of these final regulations are discussed elsewhere in this preamble under the following heading: *Analysis of Comments and Changes.*

Assessment of Educational Impact

In the NPRM, the Secretary requested comments on whether the proposed regulations would require transmission of information that is being gathered by or is available from any other agency or authority of the United States. Based on the response to the proposed rules and on its own review, the Department has determined that the regulations in this document do not require transmission of information that is being gathered by, or is available from, any other agency or authority of the United States.

List of Subjects in 34 CFR Part 685

Administrative practice and procedure, Colleges and universities, Education, Loan programs-education, Reporting and recordkeeping requirements, Student aid, Vocational education.

(Catalog of Federal Domestic Assistance Number 84.268, William D. Ford Federal Direct Loan Program)

Dated: November 27, 1995.

Richard W. Riley,

Secretary of Education.

The Secretary amends Part 685 of Title 34 of the Code of Federal Regulations as follows:

PART 685—WILLIAM D. FORD FEDERAL DIRECT LOAN PROGRAM

1. The authority citation continues to read as follows:

Authority: 20 U.S.C. 1087a et seq.

2. Section 685.209 is amended by revising paragraphs (a) and (b); removing paragraph (c) and redesignating paragraph (d) as paragraph (c); redesignating newly redesignated paragraphs (c)(2) through (5) as (c)(4) through (7), respectively; and adding new paragraphs (c)(2) and (c)(3) to read as follows:

§ 685.209 Income contingent repayment plan.

(a) *Repayment amount calculation.* (1) The amount the borrower would repay is based upon the borrower's Direct Loan debt when the borrower's first loan enters repayment, and this basis for calculation does not change unless the borrower obtains another Direct Loan or the borrower and the borrower's spouse obtain approval to repay their loans jointly under paragraph (b)(2) of this section. If the borrower obtains another Direct Loan, the amount the borrower would repay is based on the combined amounts of the loans when the last loan enters repayment. If the borrower and the borrower's spouse repay the loans jointly, the amount the borrowers would repay is based on both borrowers' Direct Loan debts at the time they enter joint repayment.

(2) The annual amount payable under the income contingent repayment plan by a borrower is the lesser of—

(i) The amount the borrower would repay annually over 12 years using standard amortization multiplied by an income percentage factor that corresponds to the borrower's adjusted gross income (AGI) as shown in the income percentage factor table in Appendix A to this part; or

(ii) 20 percent of discretionary income.

(3) For purposes of this section, discretionary income is defined as a borrower's AGI minus the amount of the ''HHS Poverty Guidelines for all States (except Alaska and Hawaii) and the District of Columbia'' as published by the United States Department of Health and Human Services on an annual basis.[1] For residents of Alaska and Hawaii, discretionary income is defined as a borrower's AGI minus the amounts in the ''HHS Poverty Guidelines for Alaska'' and the ''HHS Poverty Guidelines for Hawaii'' respectively. If a borrower provides documentation acceptable to the Secretary that the borrower has more than one person in the borrower's family, the Secretary applies the HHS Poverty Guidelines for the borrower's family size.

(4) For exact incomes not shown in the income percentage factor table in Appendix A, an income percentage factor is calculated, based upon the intervals between the incomes and income percentage factors shown on the table.

(5) Each year, the Secretary recalculates the borrower's annual payment amount based on changes in the borrower's AGI, the variable interest rate, the income percentage factors in the table in Appendix A, and updated HHS Poverty Guidelines (if applicable).

(6) For purposes of the annual recalculation described in paragraph (a)(5) of this section, after periods in which a borrower makes payments that are less than interest accrued on the loan, the payment amount is recalculated based upon unpaid accrued interest and the highest outstanding principal loan amount (including amount capitalized) calculated for that borrower while paying under the income contingent repayment plan.

(7) For each calendar year after calendar year 1996, the Secretary publishes in the Federal Register a revised income percentage factor table reflecting changes based on inflation. This revised table is developed by changing each of the dollar amounts contained in the table by a percentage equal to the estimated percentage changes in the Consumer Price Index (as determined by the Secretary) between December 1995 and the December next preceding the beginning of such calendar year.

(8) Examples of the calculation of monthly repayment amounts and tables that show monthly repayment amounts for borrowers at various income and debt levels are included in Appendix A to this part.

(b) *Treatment of married borrowers.* (1) A married borrower who wishes to repay under the income contingent repayment plan and who has filed an income tax return separately from his or her spouse must provide his or her spouse's written consent to the disclosure of certain tax return information under paragraph (c)(5) of this section (unless the borrower is separated from his or her spouse). The AGI for both spouses is used to calculate the monthly repayment amount.

(2) Married borrowers may repay their loans jointly. The outstanding balances on the loans of each borrower are added together to determine the borrowers' payback rate under (a)(1) of this section.

(3) The amount of the payment applied to each borrower's debt is the proportion of the payments that equals the same proportion as that borrower's debt to the total outstanding balance, except that the payment is credited toward outstanding interest on any loan before any payment is credited toward principal.

(c) * * *

(2) *First and second year borrowers.* The Secretary requires alternative documentation of income from borrowers in their first and second years of repayment, when in the Secretary's opinion, the borrower's reported AGI does not reasonably reflect the borrower's current income.

(3) *Adjustments to repayment obligations.* The Secretary may determine that special circumstances, such as a loss of employment by the borrower or the borrower's spouse, warrant an adjustment to the borrower's repayment obligations.

* * * * *

3. Appendix A to part 685 is revised to read as follows:

Appendix A to Part 685—Income Contingent Repayment

Examples of the Calculation of Monthly Repayment Amounts

Example 1. A single borrower with $12,500 of Direct Loans, 8.25 percent interest, and an AGI of $25,000.

Step 1: Determine annual payments based on what the borrower would pay over 12 years using standard amortization. To do this, multiply the principal balance by the constant multiplier for 8.25% interest (0.1315452). The constant multiplier is a factor used to calculate amortized payments at a given interest rate over a fixed period of time. (See the constant multiplier chart below to determine the constant multiplier you should use for the interest rate on the loan. If the exact interest rate is not listed, choose the next highest rate for estimation purposes.)

■ 0.1315452×12,500=1,644.315

Step 2: Multiply the result by the income percentage factor shown in the income percentage factor table that corresponds to the borrower's income (if the income is not listed, you can calculate the applicable income percentage factor by following the instructions under the interpolation heading below):

■ 85.55% (0.8555)×1,644.315=1,406.7115

Step 3: Determine 20 percent of discretionary income. To do this, subtract the lowest income for single borrowers shown in the income percentage factor table (HHS poverty level for a family of one) from the borrower's income and multiply the result by 20%:

■ $25,000 − $7,470=$17,530

■ $17,530×0.20=$3,506

Step 4: Compare the amount from step 2 with the amount from step 3. The lower of the two will be the borrower's annual payment amount. This borrower will be paying the amount calculated under step 2. To determine the monthly repayment amount, divide the annual amount by 12.

■ 1,406.7115÷12=$117.23

Example 2. Married borrowers both repaying under the income contingent repayment plan with a combined Adjusted Gross income (AGI) of $30,000. The husband has a Direct Loan balance of $5,000, and the wife has a Direct Loan balance of $15,000. This couple has no children.

Step 1: Add the Direct Loan balances of the husband and wife together to determine the aggregate loan balance.

■ $5,000+$15,000=$20,000

Step 2: Determine the annual payments based on what the couple would pay over 12 years using standard amortization. To do this, multiply the aggregate principal balance by the constant multiplier for 8.25% interest (0.1315452). (See the constant multiplier chart to determine the constant multiplier you should use for the interest rate on the

[1] The HHS Poverty Guidelines are available from the Office of the Assistant Secretary for Planning and Evaluation, Department of Health and Human Services (HHS), Room 438F, Humphrey Building, 200 Independence Avenue, S.W., Washington, D.C. 20201

loan. If the exact interest rate is not listed, choose the next highest rate for estimation purposes.)

■ 0.1315452×20,000=2630.904

Step 3: Multiply the result by the income percentage factor shown in the income percentage factor table that corresponds to the couple's income (if the income is not listed, you can calculate the applicable income percentage factor by following the instructions under the interpolation heading below):

■ 82.74% (0.8274)×2,630.904=2,176.80997

Step 4: Determine 20 percent of the couple's discretionary income. To do this, subtract the lowest income for married borrowers shown in the income percentage factor table (HHS poverty level for a family of 2) from the couple's income and multiply the result by 20%:

■ $30,000 − $10,030=$19,970

■ $19,970×0.20=$3,994

Step 5: Compare the amount from step 3 with the amount from step 4. The lower of the two will be the annual payment amount. The married borrowers will be paying the amount calculated under step 3. To determine the monthly repayment amount, divide the annual amount by 12.

■ $2,176.80997÷12=$181.40

Interpolation: If your income does not appear on the income percentage factor table, you will have to calculate the income percentage factor through interpolation. For example, let's say you are single and your income is $26,000. To interpolate, you must first find the interval between the closest income listed that is less than $26,000 and the closest income listed that is greater than $26,000 (for this discussion, we'll call the result ''the income interval''):

■ $27,112 − $25,000=$2,112

Next, find the interval between the two income percentage factors that are given for these incomes (for this discussion, we'll call the result, the ''income percentage factor interval''):

■ 88.77 − 85.55=3.22

Subtract the income shown on the chart that is immediately less than $26,000 from $26,000:

■ $26,000 − $25,000=1,000

Divide the result by the number representing the income interval:

■ 1,000÷2,112=0.4735

Multiply the result by the income percentage factor interval:

■ 0.4735×3.22=1.52

Add the result to the lower income percentage factor used to calculate the income percentage factor interval for $26,000 in income:

■ 1.52+85.55=87.07%

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Income Percentage Factors
(Based on Annual Income)

Single		Married and Head of Household	
Income	% Factor	Income	% Factor
7,470	55.40%	10,030	54.95%
9,752	57.79%	11,183	56.68%
10,000	58.03%	13,328	59.56%
12,548	60.57%	15,000	62.92%
15,000	65.42%	17,424	67.79%
15,409	66.23%	20,000	72.39%
18,139	71.89%	21,585	75.22%
20,000	76.44%	25,000	82.87%
21,585	80.33%	27,112	87.61%
25,000	85.55%	30,000	92.80%
27,112	88.77%	34,003	100.00%
30,000	93.48%	35,000	100.00%
34,003	100.00%	40,000	100.00%
35,000	100.00%	40,895	100.00%
40,000	100.00%	50,000	108.28%
40,895	100.00%	51,233	109.40%
49,152	111.80%	60,000	117.34%
50,000	112.52%	68,462	125.00%
60,000	121.01%	70,000	125.99%
62,935	123.50%	80,000	132.46%
70,000	128.27%	90,000	138.93%
80,000	135.03%	92,583	140.60%
89,137	141.20%	100,000	142.49%
90,000	141.78%	129,481	150.00%
100,000	148.52%	150,000	162.50%
102,205	150.00%	200,000	192.95%
150,000	179.93%	211,581	200.00%
182,045	200.00%		

CONSTANT MULTIPLIER CHART FOR 12-YEAR AMORTIZATION

Interest Rate	7.00%	7.25%	7.43%	7.50%	7.75%	8.00%	8.25%	8.38%	8.50%	8.75%	9.00%
Annual Constant Multiplier	0.1234056	0.1250112	0.126174	0.1266276	0.1282548	0.129894	0.1315452	0.132408	0.1332072	0.13488	0.1365636

Income Contingent Repayment Plan
Sample First Year Monthly Repayment Amounts for a Single Borrower at Various Income and Debt Levels

	Initial Debt																							
Income	$2,500	$5,000	$7,500	$10,000	$12,500	$15,000	$17,500	$20,000	$22,500	$25,000	$30,000	$35,000	$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000	$90,000	$100,000
$1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8,000	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9	9
9,000	16	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26	26
10,000	16	32	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42	42
12,500	17	33	50	66	83	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84	84
15,000	18	36	54	72	90	108	125	126	126	126	126	126	126	126	126	126	126	126	126	126	126	126	126	126
17,500	19	39	58	77	97	116	135	155	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167	167
20,000	21	42	63	84	105	126	147	168	189	209	209	209	209	209	209	209	209	209	209	209	209	209	209	209
22,500	22	45	67	90	112	134	157	179	202	224	251	251	251	251	251	251	251	251	251	251	251	251	251	251
25,000	23	47	70	94	117	141	164	188	211	234	281	292	292	292	292	292	292	292	292	292	292	292	292	292
30,000	26	51	77	102	128	154	179	205	231	256	307	359	376	376	376	376	376	376	376	376	376	376	376	376
35,000	27	55	82	110	137	164	192	219	247	274	329	384	438	459	459	459	459	459	459	459	459	459	459	459
40,000	27	55	82	110	137	164	192	219	247	274	329	384	438	493	542	542	542	542	542	542	542	542	542	542
45,000	29	58	87	116	145	174	203	232	261	290	348	406	464	522	580	626	626	626	626	626	626	626	626	626
50,000	31	62	93	123	154	185	216	247	278	308	370	432	493	555	617	678	709	709	709	709	709	709	709	709
55,000	32	64	96	128	160	192	224	256	288	320	384	448	512	576	640	704	768	792	792	792	792	792	792	792
60,000	33	66	99	133	166	199	232	265	298	332	398	464	531	597	663	730	796	862	876	876	876	876	876	876
65,000	34	68	103	137	171	205	240	274	308	342	411	479	548	616	685	753	821	890	958	959	959	959	959	959
70,000	35	70	105	141	176	211	246	281	316	352	422	492	562	633	703	773	844	914	984	1,042	1,042	1,042	1,042	1,042
75,000	36	72	108	144	180	216	253	289	325	361	433	505	577	649	722	794	866	938	1,010	1,082	1,126	1,126	1,126	1,126
80,000	37	74	111	148	185	222	259	296	333	370	444	518	592	666	740	814	888	962	1,036	1,110	1,184	1,209	1,209	1,209
85,000	38	76	114	152	190	228	266	303	341	379	455	531	607	683	759	834	910	986	1,062	1,138	1,214	1,290	1,292	1,292
90,000	39	78	117	155	194	233	272	311	350	389	466	544	622	699	777	855	933	1,010	1,088	1,166	1,243	1,321	1,376	1,376
95,000	40	80	119	159	199	239	278	318	358	398	477	557	636	716	796	875	955	1,034	1,114	1,193	1,273	1,352	1,432	1,459
100,000	41	81	122	163	204	244	285	326	366	407	488	570	651	733	814	895	977	1,058	1,140	1,221	1,302	1,384	1,465	1,542

Sample repayment amounts are based on an interest rate of 8.25%.

Income Contingent Repayment Plan
Sample First-Year Monthly Repayment Amounts for a Married or Head-of-Household Borrower at Various Income and Debt Levels
(Family Size = 3)

	Initial Debt																							
Income	$2,500	$5,000	$7,500	$10,000	$12,500	$15,000	$17,500	$20,000	$22,500	$25,000	$30,000	$35,000	$40,000	$45,000	$50,000	$55,000	$60,000	$65,000	$70,000	$75,000	$80,000	$85,000	$90,000	$100,000
$1,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
5,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
8,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
15,000	17	34	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40
17,500	19	37	56	74	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82	82
20,000	20	40	60	79	99	119	124	124	124	124	124	124	124	124	124	124	124	124	124	124	124	124	124	124
22,500	21	42	64	85	106	127	148	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165	165
25,000	23	45	68	91	114	136	159	182	204	207	207	207	207	207	207	207	207	207	207	207	207	207	207	207
30,000	25	51	76	102	127	153	178	203	229	254	290	290	290	290	290	290	290	290	290	290	290	290	290	290
35,000	27	55	82	110	137	164	192	219	247	274	329	374	374	374	374	374	374	374	374	374	374	374	374	374
40,000	27	55	82	110	137	164	192	219	247	274	329	384	438	457	457	457	457	457	457	457	457	457	457	457
45,000	28	57	85	114	142	171	199	227	258	284	341	398	455	512	540	540	540	540	540	540	540	540	540	540
50,000	30	59	89	119	148	178	208	237	267	297	356	415	475	534	593	624	624	624	624	624	624	624	624	624
55,000	31	62	93	124	155	185	216	247	278	309	371	433	495	556	618	680	707	707	707	707	707	707	707	707
60,000	32	64	96	129	161	193	225	257	289	322	386	450	515	579	643	707	772	790	790	790	790	790	790	790
65,000	33	67	100	134	167	200	234	267	301	334	401	468	534	601	668	735	802	868	874	874	874	874	874	874
70,000	35	69	104	138	173	207	242	276	311	345	414	483	552	622	691	760	829	898	957	957	957	957	957	957
75,000	35	71	106	142	177	212	248	283	319	354	425	496	567	637	708	779	850	921	992	1,040	1,040	1,040	1,040	1,040
80,000	36	73	109	145	182	218	254	290	327	363	436	508	581	653	726	799	871	944	1,016	1,089	1,124	1,124	1,124	1,124
85,000	37	74	112	149	186	223	260	298	335	372	446	521	595	669	744	818	893	967	1,041	1,116	1,190	1,207	1,207	1,207
90,000	38	76	114	152	190	228	267	305	343	381	457	533	609	685	761	838	914	990	1,066	1,142	1,218	1,290	1,290	1,290
95,000	39	77	116	155	194	232	271	310	348	387	464	542	619	697	774	851	929	1,006	1,084	1,161	1,238	1,316	1,374	1,374
100,000	39	78	117	156	195	234	273	312	351	390	469	547	625	703	781	859	937	1,015	1,093	1,171	1,250	1,328	1,406	1,457

Sample repayment amounts are based on an interest rate of 8.25%.

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